

Immigration's Impact on Public Cooffers

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Summary

There is general agreement that the fiscal impact of immigration (legal or illegal) depends largely on the education level of the immigrants in question. Immigrants with a lot of education pay more in taxes than they use in services, while those with little education tend to have low incomes, pay relatively little in taxes and often use a good deal in public services. In the case of illegal aliens, the vast majority have little education, and this is the key reason they create fiscal costs. Illegal families often receive benefits on behalf of their U.S.-born children. The costs associated with illegal immigration are difficult, such as emergency medical care or public education, if illegals are allowed to stay. As a matter of policy, either we enforce the law and make the illegals go home or stop complaining about the costs.

Key Findings of Research:

* The National Research Council (NRC)¹ estimated that immigrant households create a net fiscal burden (taxes paid minus services used) on all levels of government of \$20.2 billion annually.

* The NRC estimated that an immigrant without a high school diploma will create a net lifetime burden of \$89,000, and an immigrant with only a high school education is a negative \$31,000. However, an immigrant with education beyond high school is a fiscal benefit of \$105,000.

* Estimating the impact of immigrants and their descendants, the NRC found that if today's newcomers do as well as past generations, the average immigrant will be a fiscal drain for his first 22 years after arrival. It takes his children another 18 years to pay back this burden.

* The NRC also estimated that the average immigrant plus all his descendants over 300 years would create a fiscal benefit, expressed in today's dollars of \$80,000. Some immigration advocates have pointed to this 300-year figure, but the NRC states it would be "absurd" to do so.

* The Center for Immigration Studies (CIS) estimates that in 2002 illegal alien households imposed costs of \$26 billion on the federal government and paid \$16 billion in federal taxes, creating an annual net fiscal deficit of \$10.4 billion at the federal level, or \$2,700 per household.²

* Among the largest federal costs were Medicaid (\$2.5 billion); treatment for the uninsured (\$2.2 billion); food assistance programs such as food stamps, WIC, and free school lunches (\$1.9 billion); the federal prison/court systems (\$1.6 billion); and federal aid to schools (\$1.4 billion).

* If illegal aliens were legalized and began to pay taxes and use services like households headed by legal immigrants with the same education levels, CIS estimates the annual net fiscal deficit

¹The National Research Council's 1997 report entitled, *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration*. A summary of the report's findings can be found at www.cis.org/articles/1999/combinednrc.pdf

²See *The High Cost of Cheap Labor: Illegal Immigration and the Federal Budget*, Steven Camarota. <http://www.cis.org/articles/2004/fiscal.html>

would increase to \$29 billion, or \$7,700, per household at the federal level.

* The Center for Immigration Studies estimates that state and local governments spend some \$4 billion a year to provide health care to illegal aliens and their U.S.-born children and \$20 to \$24 billion to educate children from illegal alien households.

* The primary reason illegal aliens create a fiscal deficit is that an estimated 60 percent lack a high school degree and another 20 percent have no education beyond high school. The fiscal drain is not due to their legal status or unwillingness to work.

* Illegal aliens with little education are a significant fiscal drain, but less-educated immigrants who are legal residents are a much larger fiscal problem because they are eligible for many more programs.

* Many of the costs associated with illegals aliens are due to their U.S.-born children who have American citizenship. Thus, barring illegal aliens themselves from programs will have little impact on costs.

* There are now some 400,000 children born to illegal alien mothers each year in the United States, accounting for almost one in ten births in the country. Of all births to immigrants 39 percent were to mothers without a high school education, and among illegals it was more than 65 percent.³

*The costs associated with providing services to so many low-income children is enormous and will continue to grow if the large-scale immigration of less-educated immigrants (legal and illegal) is allowed to continue.

* Focusing just on Social Security and Medicare, CIS estimates that illegal households create a combined net benefit for these two programs in excess of \$7 billion a year. However, they create a net deficit of \$17 billion in the rest of the budget, for a total net federal cost of \$10 billion.

While there is still much that is not known, we now have some reasonably good information about the impact of immigrants on public coffers. As I tried to make clear in the summary above, there is a pretty clear consensus that the fiscal impact of immigration depends on the education level of the immigrants, not their legal status. Certainly other factors also matter, but the human capital of immigrants, as economists like to refer to it, is clearly very important. There is no single better predictor of one's income, tax payments, or use of public services in modern America than one's education level. The vast majority of immigrants come as adults, and it should come as no surprise that the education they bring with them is a key

³These figures are based on analysis of birth records compiled by the National Center for Health Statistics. See *Births to Immigrations in America, 1970 to 2002*, which can be found at www.cis.org/articles/2005/back805.html

determinant of their fiscal impact. In my own research I have concentrated on the effect of illegal aliens on the federal government. For those wanting a more detailed look at these questions, my most recent publications are available online at the Center for Immigration Studies web site, www.cis.org.

Illegal Immigrants and the Federal Budget

A good deal of research has focused on the effect illegals have on taxpayers at the state and local level. Much of this work has examined only costs, or only tax payments, but not both. In my work I have tried to estimate both, and I have focused on the federal government. Based on a detailed analysis of Census Bureau data, my analysis indicates that households headed by illegal aliens imposed more than \$26.3 billion in costs on the federal government in 2002 and paid \$16 billion in taxes, creating a net fiscal deficit of almost \$10.4 billion, or \$2,700 per illegal household. The largest costs are Medicaid (\$2.5 billion); treatment for the uninsured (\$2.2 billion); food assistance programs such as food stamps, WIC, and free school lunches (\$1.9 billion); the federal prison and court systems (\$1.6 billion); and federal aid to schools (\$1.4 billion).⁴ Obviously, the size of the illegal population has grown since 2002, so the costs have as well.

A Complex Fiscal Picture. While the net fiscal drain illegals create for the federal government is significant, I also found that the costs illegal households impose on federal coffers are less than half that of other households, but their tax payments are only one-fourth that of other households. Many of the costs associated with illegals are due to their American-born children, who are awarded U.S. citizenship at birth. Thus, greater efforts to bar illegals from federal programs will not reduce costs because their citizen children can continue to access them. It must also be remembered that the vast majority of illegals hold jobs. Thus the fiscal deficit they create for the federal government is not the result of an unwillingness to work. In 2002, I found that 89 percent of illegal households had at least one person working, compared to 78 percent of households headed by legal immigrants and natives.

Legalization Would Dramatically Grow Costs. One of my most important findings with regard to illegal aliens is that if they were given legal status and began to pay taxes and use services like households headed by legal immigrants with the same education levels, the estimated annual net fiscal deficit would increase from \$2,700 per household to nearly \$7,700, for a total net cost of \$29 billion. Costs increase dramatically because less-educated immigrants with legal status — what most illegal aliens would become — can access government programs but still tend to make very modest tax payments. Of course, I also found that their income would rise, as would their tax payments if legalized. I estimate that tax payments would increase 77 percent, but costs would rise by 118 percent.

⁴See footnote 2 for the source of this information and all information dealing with the fiscal costs of illegal immigration on the federal budget.

These costs are considerable and should give anyone who advocates legalizing illegal immigrants serious pause. However, my findings show that many of the preconceived notions about the fiscal impact of illegal households turn out to be inaccurate. In terms of welfare use, receipt of cash assistance programs tends to be very low, while Medicaid use, though significant, is still less than that for other households. Only use of food assistance programs is significantly higher than that of the rest of the population. Also, contrary to the perceptions that illegal aliens do not pay payroll taxes, we estimate that more than half of illegals work on the books. On average, illegal households pay more than \$4,200 a year in all forms of federal taxes. Unfortunately, they impose costs of \$6,950 per household.

What's Different About Today's Immigration. It is worth noting that many native-born Americans observe that their ancestors came to America and did not place great demands on government services. Perhaps this is true, but the size and scope of government was dramatically smaller during the last great wave of immigration. Not just means-tested programs, but expenditures on everything from public schools to roads were only a fraction of what they are today. Thus, the arrival of immigrants with little education in the past did not have the negative fiscal implications that it does today. Moreover, the American economy has changed profoundly since the last great wave of immigration, with education now the key determinant of economic success. The costs that unskilled immigrants impose simply reflect the nature of the modern American economy and welfare state. It is very doubtful that the fiscal costs can be avoided if our immigration policies remain unchanged.

Illegal Immigrants and State and Local Government

In my own research I have focused on fiscal costs at the federal level. It should also be noted that in the 1997 NRC study, *The New Americans*, mentioned above the estimated lifetime fiscal drain at the state and local level from all immigrants (legal and illegal) was negative \$25,000. That is, immigrants cost state and local government \$25,000 more in services than they paid in taxes in the course of their lifetime. Some newer data exists to estimate the impact of illegals on state and local governments in such areas as health care and public education. The estimates below provide some insight into the likely impact of illegal immigration at the state and local governments on these two key public services. Below I discuss only the impact of illegal immigration.

Health Care. In 2004, state governments spent \$125 billion on Medicaid - health insurance coverage for low incomes.⁵ Based on prior research, some \$2.1 billion of that money

⁵*Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY2002-FY2004*, Karen Spar, Coordinator. Congressional Research Service, March 27, 2006.

went to persons in illegal-alien households, mostly their U.S.-born children.⁶ Data from 2005 also indicated that of the 45.8 million uninsured people in the country (persons on Medicaid are considered to have insurance), some 7 million - or 15 percent - are illegal aliens or the young U.S.-born children of illegals under age 18.⁷ State and local governments spend some 12 billion on treatment for the uninsured.⁸ Thus, it seems likely that illegals and their children cost state and local governments some \$1.8 billion on top of the \$2.1 billion spent on Medicaid. In total, the best available evidence indicates that illegal immigration costs state and local governments some \$4 billion a year. The federal government likely spent an additional \$6 billion on health care for illegals and their children in 2004.

Public Education. State and local governments spent some \$400 billion on public education in 2003. Between 5 and 6 percent of all children in public school are themselves illegal aliens or are the U.S.-born children of an illegal alien. Putting aside the higher costs associated with educating language minority children, the costs of providing education to these children still must come to \$20 to \$24 billion for state and local governments. The federal government also provides funding for public education, a significant share of which is specifically targeted at low-income, migrant, and limited English students. The Federation for American Immigration Reform estimated that the costs of educating illegal-alien children at all levels of government, including the federal expenditures, was nearly \$12 billion in 2004, and when the children born here are counted they estimated the figure at \$28 billion.

Policy Options for Dealing With Illegal Immigration

The negative impact on the federal budget from illegal immigration need not be the only

⁶See *The High Cost of Cheap Labor: Illegal Immigration and the Federal Budget*, which can be found at www.cis.org/articles/2004/fiscal.html I estimated that slightly less than 2 percent of federal expenditures on Medicaid went to persons in illegal households. The above estimate assumes that the same percentage holds true at the state and local level.

⁷The number of uninsured illegals and their children is based on my analysis of the March 2005 Current Population Survey conducted by the Census Bureau and is consistent with other research on topic.

⁸In a February 2003 study in *Health Affairs*, which can be found at <http://www.healthaffairs.org>, Hadley and Holahan estimated government expenditures for treating the uninsured in 2001. An updated study for the Kaiser Family Foundation, which can be found at <http://www.kff.org>, has estimates for 2004. Our estimated costs for treating illegals does account for the fact that illegals are not eligible to use all of the services provided to the uninsured by virtue of their legal status.

or even the primary consideration when deciding what to do about illegal immigration. But assuming that the fiscal status quo is unacceptable, there are three main changes in policy that might reduce or eliminate the fiscal costs of illegal immigration. One set of options is to allow illegal aliens to remain in the country but attempt to reduce the costs they impose. A second set of options would be to grant them legal status as a way of increasing the taxes they pay. A third option would be to enforce the law and reduce the size of the illegal population and with it the costs of illegal immigration.

Let Illegal Stay Illegal, But Cut Costs. Reducing the costs illegals impose would probably be the most difficult policy option because illegal households already impose only about 46 percent as much in costs on the federal government as other households. Moreover, the fact that benefits are often received on behalf of their U.S.-citizen children means that it is very difficult to prevent illegal households from accessing the programs they do. It seems almost certain that if illegals are allowed to remain in the country, the fiscal deficit will persist.

The High Cost of Legalization. As discussed above, our research shows that granting illegal aliens amnesty would dramatically increase tax revenue. Unfortunately, we also find that costs would increase even more. Costs would rise dramatically because illegals would be able to access many programs that are currently off limits to them. Moreover, even if legalized illegal aliens continued to be barred from using some means-tested programs, they would still be much more likely to sign their U.S.-citizen children up for them because they would lose whatever fear they had of the government. We know this because immigrants with legal status, who have the same education levels and resulting low incomes as illegal aliens, sign their U.S.-citizen children up for programs like Medicaid at higher rates than illegal aliens with U.S.-citizen children. In addition, direct costs for programs like the Earned Income Tax Credit would also grow dramatically with legalization. Right now, illegals need a Social Security number and have to file a tax return to get the credit. As a result, relatively few actually get it. We estimate that once legalized, payments to illegals under this program would grow more than ten-fold.

Enforcing the Law. If we are serious about avoiding the fiscal costs of illegal immigration, the only real option is to enforce the law and reduce the number of illegal aliens in the country. First, this would entail much greater efforts to police the nation's land and sea borders. At present, less than 2,000 agents are on duty at any one time on the Mexican and Canadian borders. Second, much greater effort must be made to ensure that those allowed into the country on a temporary basis, such as tourists and guest workers, are not likely to stay in the country permanently. Third, the centerpiece of any enforcement effort would be to enforce the ban on hiring illegal aliens. At present, the law is completely unenforced. Enforcement would require using existing databases to ensure that all new hires are authorized to work in the United States and levying heavy fines on businesses that knowingly employ illegal aliens.

Policing the border, enforcing the ban on hiring illegal aliens, denying temporary visas to those likely to remain permanently, and all the other things necessary to reduce illegal immigration will take time and cost money. However, since the cost of illegal immigration to the federal government alone is estimated at over \$10 billion a year, significant resources could be devoted to enforcement efforts and still leave taxpayers with significant net savings.

Enforcement not only has the advantage of reducing the costs of illegal immigration, it also is very popular with the general public. Nonetheless, policymakers can expect strong opposition from special interest groups, especially ethnic advocacy groups and those elements of the business community that do not want to invest in labor-saving devices and techniques or pay better salaries, but instead want access to large numbers of cheap, unskilled workers. If we choose to continue to not enforce the law or to grant illegals legal status, both the public and policymakers have to understand that there will be significant long-term costs for taxpayers.

Conclusion

If you take nothing else away from my testimony, it should be remembered that it simply is not possible to fund social programs by bringing in large numbers of immigrants with relatively little education. This is central to the debate over illegal immigration because 60 percent of illegals are estimated to have not completed high school and another 20 have only a high school degree. The fiscal problem created by less-educated immigrants exists even though the vast majority of immigrants, including illegals, work and did not come to America to get welfare. The realities of the modern American economy coupled with the modern American administrative state make large fiscal costs an unavoidable problem of large-scale, less-educated immigration.

This fact does not reflect a moral defect on the part of immigrants. What it does mean is that we need an immigration policy that reflects the reality of modern America. We may decide to let illegals stay and we may even significantly increase the number of less-educated legal immigrants allowed into the country, which is what the immigration bill recently passed by the Senate would do. But we have to at least understand that such a policy will create large unavoidable costs for taxpayers.